

**UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS**

Statutory Basis Financial Statements and
Independent Auditors' Report with
Supplemental Information and
Federal Compliance Section

For the Fiscal Year Ended June 30, 2010

**BAXTER SPRINGS UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS**

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BAXTER SPRINGS UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS

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Diehl Banwart Bolton

Certified Public Accountants P.A.

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Unified School District #508
Baxter Springs, Kansas 66713

We have audited the accompanying financial statements of the Unified School District #508, Baxter Springs, Kansas, as of June 30, 2010, and for the fiscal year then ended, which collectively comprise the basic financial statements of the District as listed in the Table of Contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The comparative information for the fiscal year ended June 30, 2009, has been derived from the District's June 30, 2009, financial statements and in our report dated January 28, 2010, we expressed an unqualified opinion on the primary government financial statements prepared in accordance with the statutory basis of accounting.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States, and the **Kansas Municipal Audit Guide**. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the District prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices and accounting practices generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the District's policy to prepare its financial statements on the basis of accounting discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Unified School District #508, Baxter Springs, Kansas, as of June 30, 2010, or the results of its operations, for the fiscal year then ended. Further, the District has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Board of Education
Unified School District #508
Baxter Springs, Kansas

In addition, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of Unified School District #508, Baxter Springs, Kansas, as of June 30, 2010, and its cash receipts and expenditures, and budgetary comparisons, for the fiscal year then ended, on the basis of accounting described in Note 1.

In accordance with **Government Auditing Standards**, we have also issued reports dated January 15, 2011, on our consideration of the District's internal control structure and on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the District. The accompanying Schedule of Expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is also not a required part of the financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements of each of the respective individual funds taken as a whole.

Diehl Banwart Bolton CPA's PA

DIEHL, BANWART, BOLTON, CPAs PA

January 15, 2011
Pittsburg, Kansas

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS

Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Fiscal Year Ended June 30, 2010

Funds	Beginning Unencumbered Cash Balances	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balances	Plus Encumbrances and Accounts Payable	Cash Balances June 30, 2010	2009
GOVERNMENTAL TYPE FUNDS								
General Fund	(\$946,134)	\$2,016	\$7,091,058	\$6,870,265	(\$723,325)	\$61,883	(\$661,442)	(\$908,671)
Special Revenue Funds								
Supplemental General	(172,084)	-	2,021,689	2,085,000	(235,395)	-	(235,395)	(151,737)
4 Yr Old At Risk	-	-	55,000	55,000	-	-	-	-
K - 12 At Risk	-	-	1,072,809	1,072,808	1	40,426	40,427	-
Bilingual	504	-	-	-	504	-	504	1,970
Capital Outlay	1,019,491	-	400,410	319,901	1,100,000	104,328	1,204,328	1,062,404
Driver Education	20,974	-	5,987	5,987	20,974	-	20,974	20,974
Food Service	204,654	-	537,977	504,150	238,481	24,138	262,619	238,481
Professional Development	7,511	-	11,008	11,008	7,511	-	7,511	7,511
Special Education	150,000	-	1,141,144	998,766	292,378	262	292,640	292,378
Vocational Education	-	-	244,490	242,316	2,174	6,691	8,865	2,174
KPERS Special Retirement	-	-	434,593	434,593	-	-	-	-
Contingency Reserve	192,598	-	361,829	-	554,428	-	554,428	192,598
Student Materials	102,071	-	121,552	33,482	190,141	24,381	214,522	102,141
Title II	648	-	64,601	64,601	648	6,629	7,277	2,711
Title I	-	-	312,508	312,508	-	716	716	155
Title IID ARRA	-	-	6,530	6,530	-	4,897	4,897	-
Educational Technology Grant	6	-	-	-	6	-	6	6
Title V	-	-	-	-	-	-	-	20,000
Title I ARRA	25,000	-	46,262	69,957	1,305	1,863	3,168	25,000
School Preparedness Grant	-	-	750	-	750	-	750	-
Rural Low Income Schools	-	-	27,646	27,646	-	33	33	6,636
Education	6,925	-	-	-	6,925	-	6,925	6,925
District Activity Funds	4,371	-	131,654	129,370	6,655	-	6,655	4,371
Debt Service Fund								
Bond and Interest	1,313	-	-	-	1,313	-	1,313	1,313
EXPENDABLE TRUST								
Special Grants	9,638	-	8,242	7,810	10,070	-	10,070	9,638
Abernathy Trust	84,180	-	90,000	144,722	29,458	23	29,481	84,749
NON-EXPENDABLE TRUST								
Taylor Scholarship Fund	185,963	-	5,054	5,850	185,168	-	185,168	185,963
Hartzell Scholarship Fund	6,099	-	31	-	6,130	-	6,130	6,099
Total Reporting Entity	\$903,729	\$2,016	\$14,192,825	\$13,402,270	\$1,696,300	\$276,271	\$1,972,571	\$1,213,791

The notes to the financial statements are an integral part of this statement.

Statement 1 (Continued)

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS

Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Fiscal Year Ended June 30, 2010

	Cash Balances	
	June 30,	
	2010	2009
Composition of Cash		
General Checking NOW Accounts.....	\$1,772,117	\$1,014,858
Activity Checking Accounts.....	32,801	28,650
Petty Cash.....	2,500	2,500
Certificates of Deposit.....	185,168	185,963
Scholarships.....	6,130	6,099
Total Cash (See Note 8)	1,998,716	1,238,070
Less Agency Funds per Statement 4	(26,146)	(24,279)
Total Reporting Entity.....	\$1,972,570	\$1,213,791

The notes to the financial statements are an integral part of this statement.

**UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS**

Summary of Expenditures - Actual and Budget (Budgeted Funds Only)
For the Fiscal Year Ended June 30, 2010

Funds	Certified Budget	Adjustment to Comply with Legal Maximum	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures		Variance - Favorable (Unfavorable)
					Charged to Current Year Budget		
GOVERNMENTAL TYPE FUNDS							
General Fund	\$6,761,454	(\$73,450)	\$182,261	\$6,870,265	\$6,870,265		-
Special Revenue Funds							
Supplemental General	2,085,000	-	-	2,085,000	2,085,000		-
4 Yr Old At Risk	55,000	-	-	55,000	55,000		-
K - 12 At Risk	1,095,109	-	-	1,095,109	1,072,809		22,300
Capital Outlay	1,019,601	-	-	1,019,601	319,901		699,700
Driver Education	21,151	-	-	21,151	5,987		15,164
Food Service	745,564	-	-	745,564	504,150		241,414
Professional Development	21,419	-	-	21,419	11,008		10,411
Special Education	1,400,000	-	-	1,400,000	998,766		401,234
KPERS Special Retirement	464,512	-	-	464,512	434,593		29,919
Vocational Education	300,000	-	-	300,000	242,316		57,684
Bilingual	2,217	-	-	2,217	-		2,217
Debt Service Funds							
Bond and Interest	-	-	-	-	-		-
	<u>\$13,971,027</u>						

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
GENERAL FUND

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Ad valorem tax	\$401,393	\$397,353	\$399,985	(\$2,632)
Delinquent tax	20,176	12,309	4,289	8,020
Motor vehicle tax	-	-	-	-
Other	213,740	182,261	-	182,261
State Sources				
General aid	5,855,866	5,293,353	5,336,627	(43,274)
Special ed aid	564,724	889,578	702,938	186,640
Federal Sources				
ARRA Stabilization	-	316,204	316,204	-
Total Cash Receipts	7,055,899	7,091,058	\$6,760,043	\$331,015
Expenditures				
Instruction	2,484,748	2,823,833	\$2,423,898	(\$399,935)
Support Services				
Student Support	236,164	150,224	260,672	110,448
Instructional Support	156,494	130,424	319,752	189,328
General Administration	499,815	496,476	277,867	(218,609)
School Administration	464,003	367,382	490,337	122,955
Operations and Maintenance	956,353	754,349	780,107	25,758
Other Support Services	-	-	-	-
Transportation	195,682	144,567	183,821	39,254

The notes to the financial statements are an integral part of this statement.

**UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
GENERAL FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Current Year			Variance - Favorable (Unfavorable)
	Actual	Actual	Budget	
Expenditures (Continued)				
Operating Transfers to				
4 Yr Old At Risk	52,506	22,737	55,000	\$32,263
K-12 At Risk	884,984	189,142	970,000	780,858
Capital Outlay	367,329	370,989	150,000	(220,989)
Bilingual Education	2,217	-	-	-
Food Service	-	87,628	-	(87,628)
Special Education	764,175	824,866	850,000	25,134
Vocational Education	14,152	59,641	-	(59,641)
Drivers Education	10,000	3,387	-	(3,387)
Contingency Reserve	155,333	361,829	-	(361,829)
Student Materials	96,906	74,190	-	(74,190)
Professional Development	-	8,602	-	(8,602)
Subtotal Expenditures	7,340,860	6,870,265	6,761,454	
Adjustments to Budget				
Adjustment to Comply with Legal Maximum Budget	-	-	(73,450)	(73,450)
Adjustment for Reimbursed Expenses	-	-	182,261	182,261
Total Expenditures Subject to Budget	7,340,860	6,870,265	\$6,870,265	-
Receipts Over (Under) Expenditures	(284,961)	220,793		
Unencumbered Cash, Beginning	(661,173)	(946,134)		
Cancelled Prior Year Encumbrance	-	2,016		
Unencumbered Cash, Ending	(\$946,134)	(\$723,325)		

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
SUPPLEMENTAL GENERAL FUND

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Ad Valorem	\$505,814	\$508,077	\$500,204	\$7,873
Delinquent tax	22,856	16,951	5,437	11,514
Motor vehicle tax	73,325	74,883	61,467	13,416
State Sources				
Supplemental aid	1,169,657	1,070,806	1,391,237	(320,431)
Federal Sources				
ARRA Stabilization	-	350,972	-	350,972
Total Cash Receipts	1,771,652	2,021,689	\$1,958,345	\$63,344
Expenditures				
Instruction	790,761	377,553	\$925,000	\$547,447
Support Services				
Student Support	6,073	-	-	-
General Administration	88,881	27,716	50,000	22,284
School Administration	-	89,533	-	(89,533)
Operations and Maintenance	155,378	149,344	270,000	120,656
Operating Transfers to Other Funds				
Food Service	178,072	-	100,000	100,000
Professional Development	15,353	2,406	15,000	12,594
K-12 At Risk	125,256	883,667	125,000	(758,667)
4 yr old At Risk	9,095	32,263	-	(32,263)
Student Materials	3,094	36,225	-	(36,225)
Special Education	361,815	315,403	400,000	84,597
Vocational Education	236,222	170,890	200,000	29,110
Total Expenditures				
Subject to Budget	1,970,000	2,085,000	\$2,085,000	-
Receipts Over (Under) Expenditures	(198,348)	(63,311)		
Unencumbered Cash, Beginning	26,265	(172,084)		
Unencumbered Cash, Ending	(\$172,084)	(\$235,395)		

The notes to the financial statements are an integral part of this statement.

**UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
4 YR OLD AT RISK FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Operating Transfer from General Fund	\$52,506	\$22,737	\$55,000	\$32,263
Supplemental General	9,095	32,263	-	32,263
Total Cash Receipts	61,600	55,000	\$55,000	\$64,526
Expenditures				
Instruction	61,600	55,000	\$55,000	-
Support Services	-	-		-
Total Expenditures	61,600	55,000	\$55,000	-
Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash, Beginning	-	-		
Unencumbered Cash, Ending	-	-		

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
K -12 AT RISK FUND

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Operating Transfer from:				
General Fund	\$884,984	\$189,142	\$970,000	(\$780,858)
Supplemental General Fund	125,256	883,667	125,000	
Total Cash Receipts	1,010,240	1,072,809	\$1,095,000	(\$780,858)
Expenditures				
Instruction	1,010,240	1,072,808	\$1,095,109	\$22,301
Support Services	-	-	-	-
Total Expenditures	1,010,240	1,072,808	\$1,095,109	\$22,301
Receipts Over (Under) Expenditures	-	1		
Unencumbered Cash, Beginning	-	-		
Unencumbered Cash, Ending	-	\$1		

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
BILINGUAL FUND

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Operating transfer from General Fund	\$2,217	-	-	-
Total Cash Receipts	2,217	-	-	-
Expenditures				
Instruction	2,216	-	\$2,217	\$2,217
Support Services	-	-	-	-
Total Expenditures	2,216	-	\$2,217	\$2,217
Receipts Over (Under) Expenditures	1	-		
Unencumbered Cash, Beginning	503	504		
Unencumbered Cash, Ending	\$504	\$504		

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
CAPITAL OUTLAY FUND

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Ad valorem tax	-	-	-	-
Delinquent tax	1,148	61	-	61
Motor vehicle tax	-	-	-	-
Interest on idle funds	18,078	7,190	20,000	(12,810)
Other	280,181	22,171	20,000	2,171
Operating Transfer from Other Funds				
General	367,329	370,989	150,000	220,989
Total Cash Receipts	666,735	400,410	\$190,000	\$210,410
Expenditures				
Instruction	134,834	53,038	\$267,129	\$214,091
Support Services				
Operations & Maintenance	269	-	148,652	148,652
Transportation	-	-	-	-
Facility Acquisition and Construction Services	599,396	266,863	603,820	336,957
Total Expenditures	734,499	319,901	\$1,019,601	\$699,700
Receipts Over (Under) Expenditures	(67,764)	80,509		
Unencumbered Cash, Beginning	1,087,255	1,019,491		
Unencumbered Cash, Ending	\$1,019,491	\$1,100,000		

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
DRIVER EDUCATION FUND

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Other	-	-	-	-
State Sources				
State aid	2,322	2,600	2,500	100
Operating Transfer from General	10,000	3,387	-	3,387
Total Cash Receipts	12,322	5,987	\$2,500	\$3,487
Expenditures				
Instruction	7,526	5,663	\$21,151	\$15,488
Support Services				
Operations and Maintenance	383	324	-	(324)
Total Expenditures	7,908	5,987	\$21,151	\$15,164
Receipts Over (Under) Expenditures	4,414	(0)		
Unencumbered Cash, Beginning	16,561	20,974		
Unencumbered Cash, Ending	\$20,974	\$20,974		

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
FOOD SERVICE FUND

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Students	\$143,582	\$110,165	\$119,807	(\$9,642)
Adults	7,994	7,766	8,330	(564)
Other	9,094	8,455	-	8,455
State Sources				
Food service aid	5,547	5,528	5,654	(126)
Federal Sources				
Child nutrition aid	297,575	318,435	286,774	31,661
Operating Transfer from Other Funds				
General Fund	-	87,628	-	87,628
Supplemental General	178,072	-	100,000	(100,000)
Total Cash Receipts	641,864	537,977	\$520,565	\$17,412
Expenditures				
Support Services				
Operations and Maintenance	-	20,317	\$67,916	\$47,599
Operation and Non instructional Services				
Food Service Operations	591,402	483,833	677,648	193,815
Total Expenditures	591,402	504,150	\$745,564	\$241,414
Receipts Over (Under) Expenditures	50,462	33,827		
Unencumbered Cash, Beginning	154,191	204,654		
Unencumbered Cash, Ending	\$204,654	\$238,481		

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
PROFESSIONAL DEVELOPMENT FUND

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Other	-	-	-	-
State Sources				
Professional Development Aid	2,171	-	-	-
Operating Transfer from				
General	-	\$8,602	-	\$8,602
Supplemental General	15,353	2,406	15,000	(12,594)
Total Cash Receipts	17,524	11,008	\$15,000	(\$3,992)
Expenditures				
Support Services				
Instructional Support Staff	15,013	11,008	\$21,419	\$10,411
Other Support Services	-	-	-	-
Total Expenditures	15,013	11,008	\$21,419	\$10,411
Receipts Over (Under) Expenditures	2,511	-		
Unencumbered Cash, Beginning	5,000	7,511		
Unencumbered Cash, Ending	\$7,511	\$7,511		

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
SPECIAL EDUCATION FUND

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Other	-	\$875	-	\$875
State Sources				
Operating Transfers from Other Funds				
General	764,175	824,866	850,000	(25,134)
Supplemental General	361,815	315,403	400,000	(84,597)
Total Cash Receipts	1,125,990	1,141,144	\$1,250,000	(\$108,856)
Expenditures				
Instruction	989,155	926,511	\$1,265,450	\$338,939
Support Services				
Transportation	71,835	72,255	134,550	62,295
Total Expenditures	1,060,990	998,766	\$1,400,000	\$401,234
Receipts Over (Under) Expenditures	65,000	142,378		
Unencumbered Cash, Beginning	85,000	150,000		
Unencumbered Cash, Ending	\$150,000	\$292,378		

The notes to the financial statements are an integral part of this statement.

**UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
VOCATIONAL EDUCATION FUND**

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Other	\$7,658	\$5,269	\$100,000	(\$94,731)
Federal Sources				
Carl Perkins	\$10,039	\$8,689	-	\$8,689
Operating Transfer from				
General Fund	14,152	59,641	-	59,641
Supplemental General	236,222	170,890	200,000	(29,110)
Total Cash Receipts	268,071	244,490	\$300,000	(\$55,510)
Expenditures				
Instruction	268,071	242,316	\$300,000	\$57,684
Total Expenditures	268,071	242,316	\$300,000	\$57,684
Receipts Over (Under) Expenditures	-	2,174		
Unencumbered Cash, Beginning	-	-		
Unencumbered Cash, Ending	-	\$2,174		

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
KPERS SPECIAL RETIREMENT FUND

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
State Sources				
State Aid	\$409,467	\$434,593	\$464,512	(\$29,919)
Total Cash Receipts	409,467	434,593	\$464,512	(\$29,919)
Expenditures				
Instruction	195,583	207,583	\$221,875	\$14,292
Support Services				
Student Support	145,512	150,638	165,073	14,435
Instructional Support	10,546	16,546	11,964	(4,582)
General Administration	8,942	9,942	10,144	202
School Administration	15,696	16,696	17,937	1,241
Operations & Maintenance	20,029	20,029	22,889	2,860
Student Transportation Services	4,226	4,226	4,829	603
Food Service Operations	8,933	8,933	9,801	868
Total Expenditures	409,467	434,593	\$464,512	\$29,919
Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash, Beginning	-	-		
Unencumbered Cash, Ending	-	-		

The notes to the financial statements are an integral part of this statement.

**UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
CONTINGENCY RESERVE FUND**

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Operating Transfer from General Fund	\$155,333	\$361,829
Total Cash Receipts	155,333	361,829
Expenditures		
Instruction	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	155,333	361,829
Unencumbered Cash, Beginning	37,265	192,598
Unencumbered Cash, Ending	\$192,598	\$554,428

The notes to the financial statements are an integral part of this statement.

**UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
STUDENT MATERIALS FUND**

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Other	\$13,386	\$11,138
Operating Transfer from:		
General Fund	96,906	74,190
Supplemental General Fund	3,094	36,225
Total Cash Receipts	113,386	121,552
Expenditures		
Instruction	15,154	33,482
Total Expenditures	15,154	33,482
Receipts Over (Under) Expenditures	98,232	88,070
Unencumbered Cash, Beginning	3,839	102,071
Unencumbered Cash, Ending	\$102,071	\$190,141

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
TITLE II FUND

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	\$67,927	\$64,601
Total Cash Receipts	67,927	64,601
Expenditures		
Instruction	47,279	64,601
General Administration	-	-
Operating transfer to : Title V	20,000	-
Total Expenditures	67,279	64,601
Receipts Over (Under) Expenditures	648	(0)
Unencumbered Cash, Beginning	-	648
Unencumbered Cash, Ending	\$648	\$648

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
TITLE I FUND

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	\$288,924	\$312,508
Total Cash Receipts	288,924	312,508
Expenditures		
Instruction	288,924	312,508
Total Expenditures	288,924	312,508
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	-	-

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
TITLE IID ARRA FUND

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	<u>Prior Year Actual</u>	<u>Current Year Actual</u>
Cash Receipts		
Federal Sources		
ARRA Federal Aid	<u>-</u>	<u>\$6,530</u>
Total Cash Receipts	<u>-</u>	<u>6,530</u>
Expenditures		
Instruction	<u>-</u>	<u>6,530</u>
Total Expenditures	<u>-</u>	<u>6,530</u>
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	<u>-</u>	<u>-</u>
Unencumbered Cash, Ending	<u><u>-</u></u>	<u><u>-</u></u>

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
EDUCATIONAL TECHNOLOGY GRANT FUND
Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	-	-
Total Cash Receipts	-	-
Expenditures		
Instruction	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	6	6
Unencumbered Cash, Ending	<u>\$6</u>	<u>\$6</u>

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
TITLE V FUND

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	-	-
Operating transfer from:		
Title II	20,000	-
Total Cash Receipts	20,000	-
Expenditures		
Support Services	20,000	-
Total Expenditures	20,000	-
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	-	-

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
TITLE I ARRA FUND

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	\$25,000	\$46,262
Total Cash Receipts	25,000	46,262
Expenditures		
Instruction	-	69,957
Total Expenditures	-	69,957
Receipts Over (Under) Expenditures	25,000	(23,695)
Unencumbered Cash, Beginning	-	25,000
Unencumbered Cash, Ending	\$25,000	\$1,305

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
SCHOOL PREPAREDNESS GRANT

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
State Sources		
Grant	-	\$750
Total Cash Receipts	-	750
Expenditures		
Instruction	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	-	750
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	-	\$750

The notes to the financial statements are an integral part of this statement.

**UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
RURAL LOW INCOME SCHOOLS FUND**

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010

(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Federal Sources		
Federal aid	\$27,502	\$27,646
Total Cash Receipts	27,502	27,646
Expenditures		
Instruction	27,502	27,646
Total Expenditures	27,502	27,646
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	-	-
Unencumbered Cash, Ending	-	-

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
EDUCATION FUND

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Other	-	-
Total Cash Receipts	-	-
Expenditures		
Instruction	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	-	-
Unencumbered Cash, Beginning	6,925.00	6,925.00
Unencumbered Cash, Ending	\$6,925.00	\$6,925.00

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
BOND AND INTEREST FUND

Statement of Cash Receipts and Expenditures - Actual and Budget
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year		Variance - Favorable (Unfavorable)
		Actual	Budget	
Cash Receipts				
Local Sources				
Ad valorem tax	-	-	-	-
Delinquent tax	-	-	-	-
Motor vehicle tax	-	-	-	-
State Sources				
State aid	-	-	-	-
Total Cash Receipts	-	-	-	-
Expenditures				
Debt Service				
Principal	-	-	-	-
Interest	-	-	-	-
Other	-	-	-	-
Total Expenditures	-	-	-	-
Receipts Over (Under) Expenditures	-	-		
Unencumbered Cash, Beginning	1,313	1,313		
Unencumbered Cash, Ending	\$1,313	\$1,313		

The notes to the financial statements are an integral part of this statement.

**UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
SPECIAL GRANTS FUND**

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	<u>Prior Year Actual</u>	<u>Current Year Actual</u>
Cash Receipts		
Local Sources		
Other grants	\$5,846	\$8,242
Other	-	-
Total Cash Receipts	<u>5,846</u>	<u>8,242</u>
Expenditures		
Scholarships	<u>3,661</u>	<u>7,810</u>
Total Expenditures	<u>3,661</u>	<u>7,810</u>
Receipts Over (Under) Expenditures	2,185	432
Unencumbered Cash, Beginning	<u>7,453</u>	<u>9,638</u>
Unencumbered Cash, Ending	<u>\$9,638</u>	<u>\$10,070</u>

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
ABERNATHY TRUST FUND

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Abernathy trust	\$90,000	\$90,000
Other	251,504	-
Total Cash Receipts	341,504	90,000
Expenditures		
Grant Expenditures	284,708	144,722
Total Expenditures	284,708	144,722
Receipts Over (Under) Expenditures	56,796	(54,722)
Unencumbered Cash, Beginning	27,384	84,180
Unencumbered Cash, Ending	<u>\$84,180</u>	<u>\$29,458</u>

The notes to the financial statements are an integral part of this statement.

**UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
TAYLOR SCHOLARSHIP TRUST FUND**

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	<u>Prior Year Actual</u>	<u>Current Year Actual</u>
Cash Receipts		
Local Sources		
Donations	-	-
Interest	<u>5,089</u>	<u>5,054</u>
Total Cash Receipts	<u>5,089</u>	<u>5,054</u>
Expenditures		
Scholarships	<u>6,660</u>	<u>5,850</u>
Total Expenditures	<u>6,660</u>	<u>5,850</u>
Receipts Over (Under) Expenditures	(1,571)	(796)
Unencumbered Cash, Beginning	<u>187,534</u>	<u>185,963</u>
Unencumbered Cash, Ending	<u><u>\$185,963</u></u>	<u><u>\$185,168</u></u>

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
HARTZELL SCHOLARSHIP TRUST FUND

Statement of Cash Receipts and Expenditures - Actual
For the Fiscal Year Ended June 30, 2010

(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	Prior Year Actual	Current Year Actual
Cash Receipts		
Local Sources		
Donations	-	-
Interest	30	31
Total Cash Receipts	30	31
Expenditures		
Scholarships	-	-
Total Expenditures	-	-
Receipts Over (Under) Expenditures	30	31
Unencumbered Cash, Beginning	6,069	6,099
Unencumbered Cash, Ending	\$6,099	\$6,130

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
AGENCY FUNDS
Statement of Cash Receipts and Cash Disbursements
For the Fiscal Year Ended June 30, 2010

	Beginning Cash Balances	Cash Receipts	Cash Disbursements	Ending Cash Balances
Agency Funds				
Student Organizations				
High School	\$16,958	\$73,010	\$69,622	\$20,347
Elementary Schools	4,059	72,205	72,660	3,603
Middle School	3,262	13,535	14,601	2,196
Totals	<u>\$24,279</u>	<u>\$158,751</u>	<u>\$156,883</u>	<u>\$26,146</u>

The notes to the financial statements are an integral part of this statement.

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
DISTRICT ACTIVITY FUNDS

Summary of Cash Receipts, Expenditures, and Unencumbered Cash
For the Fiscal Year Ended June 30, 2010

Funds	Beginning Unencumbered Cash Balances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balances	Plus Encumbrances and Accounts Payable	Cash Balances June 30, 2010	2009
Gate Receipts							
Middle School Activity	\$1,628	\$40,700	\$41,075	\$1,253	-	\$1,253	\$1,628
High School Activity	2,743	90,954	88,295	5,402	-	5,402	2,743
Total Gate Receipts	4,371	131,654	129,370	6,655	-	6,655	4,371
Totals	\$4,371	\$131,654	\$129,370	\$6,655	-	\$6,655	\$4,371

The notes to the financial statements are an integral part of this statement.

BAXTER SPRINGS UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS

NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Unified School District #508, Baxter Springs, Kansas (District), have been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Governmental Accounting Standards Board is the principal standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies follow. Note 1 describes how the District's accounting policies differ from accounting principles generally accepted in the United States of America.

Reporting Entity

The District is a municipal corporation governed by an elected seven-member board. These financial statements present USD #508 (the primary government). The District has developed criteria to determine whether outside agencies, with activities which benefit the members of the District, should be included within its financial reporting entity. This criteria include but are not limited to, whether the District exercises financial accountability, selection of governing authority, designation of management, ability to significantly influence operations, scope of public service and special financing relationships. Based on the above criteria, the District has determined that no outside agency meets the criteria; therefore, no outside agency has been included as a component unit in these financial statements.

Basis of Presentation - Fund Accounting

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds comprise the financial activities of the District:

GOVERNMENTAL FUNDS

General Fund -- to account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds -- to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

Basis of Presentation - Fund Accounting - (Continued)

GOVERNMENTAL FUNDS - (Continued)

Debt Service Fund -- to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt, and the financing of special assessments, which are general obligations of the District.

FIDUCIARY FUNDS

Trust and Agency Funds - to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Expendable Trust Funds, Non-Expendable Trust Funds and Agency Funds.

Basis of Presentation - Special Financial Statements

These financial statements are presented on a basis of accounting which demonstrates compliance with the cash basis and budget laws of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. For an interfund transfer, a cash receipt is recorded in the fund receiving cash from another fund. Cash disbursements are recognized when the cash balance of a fund is decreased. For an inter-fund transaction, a cash disbursement is recorded in the fund from which the cash is transferred. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

Departures From Accounting Principles Generally Accepted in the United States of America

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown non-cash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue, principal and interest payable and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings, and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

Budgetary Information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding fiscal year on or before August 1.
2. Publication in the local newspaper of the proposed budget and a notice of public hearing on the budget on or before August 5.
3. Public hearing on or before August 15, but at least ten days after the publication of a notice of hearing.
4. Adoption of the final budget on or before August 25.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no budget amendments during the year. The General Fund budget was reduced to the legal maximum based on enrollment.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the cash basis of accounting, modified further by the recording of accounts payable and encumbrances. Revenues are recognized when cash is received. Expenditures include cash disbursements, accounts payable and encumbrances. Encumbrances are commitments of the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

A legal operating budget is not required for fiduciary funds and the following special revenue funds:

- Grant Fund (K.S.A. 72-8210)
- Federal Funds (K.S.A. 12-1663)
- Contingency Reserve Fund (K.S.A. 72-6426)
- Student Materials Fund (K.S.A. 72-8250)

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes or by the use of internal spending limits established by the governing body.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (Continued)

Compensated Absences

Full time employees receive twelve days of sick leave at the beginning of the school year. An employee may accumulate up to 70 days of sick leave. Upon KPERs retirement or death of the employee, the District pays \$70 per day of accumulated unused sick leave. No other payments are made for unused sick leave.

Full time, twelve-month employees accrue 20 days of vacation each year on June 30, which is to be taken within twelve months after year end.

The District determines a liability for compensated absences when the following conditions are met:

1. The District's obligation relating to the employee's rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated and is material to the financial statements.

In accordance with the above criteria, the District has determined a liability for accrued sick pay totaling \$57,575 as of June 30, 2010. However, the liability is not shown as a current liability, inasmuch as it is not expected to be paid from current resources.

Termination and Post Employment Benefits

No termination benefits are provided to District employees when employment with the District ends except for the accrued compensated absences as discussed in Note 1 and early retirement benefits.

A retirement benefit is available when an employee eligible for KPERs retires. The payments are made as a lump sum of \$175 per years of service with District.

In accordance with this retirement policy, fifteen employees are eligible to retire and receive lump sum benefits totaling \$63,000.00.

As provided by K.S.A. 12-5040, the District allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the District under this program.

Property Taxes

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, taxes levied during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Compliance with Kansas Statutes

Statements 1 and 2 have been prepared in order to show compliance with the cash basis and budget laws of Kansas. As shown in Statements 1 & 2, the District was in apparent compliance with the cash basis and budget laws of Kansas. Apparent cash basis violations in the General and Supplemental General Funds were not actual violations as discussed in Note 10.

3. CASH IN BANK AND DEPOSITORY SECURITY

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

3. **CASH IN BANK AND DEPOSITORY SECURITY** (Continued)

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. At June 30, 2010, the District was in compliance with this requirement.

At June 30, 2010 the District's carrying amount of deposits was \$1,998,716 and the bank balance was \$2,893,721. The bank balance was held by two banks resulting in limited diversification of credit risk. Of the bank balance, \$276,523 was covered by federal depository insurance, and \$2,617,198 was collateralized with securities totaling \$6,155,614 held by the pledging financial institutions' agents in the District's name.

4. **PENSION PLAN**

Plan Description

The School District participates in the Kansas Public Employees Retirement System ("KPERS"), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100; Topeka, Kansas 66603) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary for all employees hired before July 1, 2009. For employees hired after that date the contribution rate is 6%. Member-employee's contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code. The State of Kansas is required to contribute the remaining amount necessary to achieve the actuarially determined contribution rate. Kansas contributed 8.57% of covered payroll for the period ended June 30, 2010. These contribution requirements are established by KPERS and are periodically reviewed. Kansas's employer contribution to KPERS for all school municipality employees for the years ending June 30, 2010, 2009, and 2008, was \$248,468,168, \$242,277,363, and \$220,815,154, respectively, equal to the statutory required contribution for each year. The KPERS Special Retirement Fund shows the payments made by the State for the District's eligible employees.

5. **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees health and life; and natural disasters. The District continues to carry commercial insurance for these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

6. CONTINGENCIES

In the normal course of operations, the District participates in various federal or state grant programs from year to year. The grant programs are often subject to additional audits by agents of the granting agency, the purpose of which is to ensure compliance with the specific conditions of the grant. Any liability for reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

7. TRANSFERS

Operating transfers are routinely made from the General and Supplemental General Funds to other funds as allowed by Kansas Statutes. Operating transfers were as follows:

FROM	TO	STATUTORY AUTHORITY	AMOUNT
General	4 Year Old At Risk	K.S.A. 72-6428	\$ 22,737
General	K-12 At Risk	K.S.A. 72-6428	189,142
General	Capital Outlay	K.S.A. 72-6428	370,989
General	Driver's Education	K.S.A. 72-6428	3,387
General	Vocational Education	K.S.A. 72-6435	59,641
General	Contingency Reserve	K.S.A. 72-6435	361,829
General	Food Service	K.S.A. 72-6435	87,628
General	Student Materials	K.S.A. 72-6435	74,190
General	Special Education	K.S.A. 72-6428	824,866
General	Professional Development	K.S.A. 72-6435	8,602
Supplemental General	Professional Development	K.S.A. 72-6435	2,406
Supplemental General	Special Education	K.S.A. 72-6435	315,403
Supplemental General	K-12 At Risk	K.S.A. 72-6435	883,667
Supplemental General	4 Year Old At Risk	K.S.A. 72-6435	32,263
Supplemental General	Student Materials	K.S.A. 72-6435	36,225
Supplemental General	Vocational Education	K.S.A. 72-6435	170,890

8. SUBSEQUENT EVENT

Subsequent events have been evaluated through the date of the Independent Auditors' Report as shown on page 2 of these financial statements. As shown in the schedule of maturities in Note 9, the District entered into a bus lease on October 20, 2010. There are no other subsequent events recognized in these financial statements or disclosed in the notes to the financial statements.

9. LONG-TERM OBLIGATIONS

Details about the District's long-term obligations, changes in long term debt, and current maturities for the next five years and thereafter are recorded on the following two pages:

9. **LONG TERM OBLIGATIONS** (Continued)

	Interest Rates	Date of Issue	Amount of Issue	Date of Final Maturity	Balances Beginning of Year	Additions / New Debt	Reductions / Principal Paid	Balances End of Year	Interest Paid
Capital Leases									
School Buses	4.50%	8/23/2007	\$ 132,270	8/1/2011	\$ 79,566	\$ -	\$ 25,338	\$ 54,228	\$ 3,662
Apple Computer	4.29%	11/17/2005	264,059	11/17/2009	70,231	-	70,231	-	3,012
Apple Computer	3.00%	7/15/2008	163,046	6/30/2012	123,923	-	40,093	83,830	3,718
Compensated Absences									
Sick Pay					84,840	-	27,265	57,575	-
Early Retirement					85,925	-	22,925	63,000	-
Total Long Term Debt					\$ 444,485	\$ -	\$ 185,852	\$ 258,633	\$ 10,392

9. LONG TERM OBLIGATIONS (Continued)

	2011	2012	2013	2014	2015	Totals
<u>Principal</u>						
Capital Leases						
School Buses	26,504	27,724	-	-	-	54,228
School Bus *	16,605	14,059	14,656	15,279	15,928	76,527
Apple Computers	41,296	42,535	-	-	-	83,831
Total Principal	84,405	84,318	14,656	15,279	15,928	214,586
<u>Interest</u>						
Capital Leases						
School Buses	2,496	1,276	-	-	-	3,772
School Bus	-	2,547	1,949	1,326	677	6,499
Apple Computers	2,515	1,276	-	-	-	3,791
Total Interest	5,011	5,099	1,949	1,326	677	14,062
Total Principal and Interest	\$ 89,416	\$ 89,417	\$ 16,605	\$ 16,605	\$ 16,605	\$ 228,648

* Subsequent Event see note 8

10. **COMPLIANCE WITH K.S.A. 72-6417(d) AND K.S.A. 72-6434(d).**

K.S.A. 72-6417(d) and K.S.A. 72-6434(d) requires the school district to record any payment of general state aid that is due to be paid during the month of June and is paid to the school district after June 30, as a receipt for the school year ending on June 30. The following shows the revenue as required by the Statutes.

STATUTORY REVENUES AND EXPENDITURES - STATUTORY AND BUDGET
For the Year Ended June 30, 2010

	GENERAL FUND		
	Statutory Transactions	Budget	Variance- Favorable (Unfavorable)
Cash Receipts			
Local Sources			
Ad Valorem Tax	\$ 397,353	\$ 399,985	\$ (2,632)
Delinquent Tax	12,309	4,289	8,020
Motor Vehicle Tax	-	-	-
Other	182,261	-	182,261
State Sources			
General Aid	5,272,012	5,336,627	(64,615)
Special Education Aid	690,127	702,938	(12,811)
Federal Sources			
ARRA Stabilization	316,204	316,204	-
Total Cash Receipts	<u>6,870,266</u>	<u>\$ 6,760,043</u>	<u>\$ 110,223</u>
Expenditures			
Instruction	2,823,833	\$ 2,423,898	\$ (399,935)
Support Services			
Student Support	150,224	260,672	110,448
Instructional Support	130,424	319,752	189,328
General Administration	496,476	277,867	(218,609)
School Administration	367,382	490,337	122,955
Operations and Maintenance	754,349	780,107	25,758
Other Support Services	-	-	-
Transportation	144,567	183,821	39,254
Operating Transfers to Other Funds			
At Risk 4 Year Old	22,737	55,000	32,263
At Risk K-12	189,142	970,000	780,858
Capital Outlay	370,989	150,000	(220,989)
Bilingual Education	-	-	-
Food Service	87,628	-	(87,628)
Special Education	824,866	850,000	25,134
Vocational Education	59,641	-	(59,641)
Drivers Education	3,387	-	(3,387)
Contingency Reserve	361,829	-	(361,829)
Student Materials	74,190	-	(74,190)
Professional Development	8,602	-	(8,602)
Subtotal Expenditures	6,870,265	6,761,454	
Adjustments to Budget			
Adjustment to Comply with			
Legal Maximum Budget	-	(73,450)	(73,450)
Adjustment for Reimbursed Expenses	-	182,261	182,261
Total Expenditures Subject to Budget	<u>6,870,265</u>	<u>\$ 6,870,265</u>	<u>\$ -</u>
Receipts Over (Under) Expenditures	1		
Unencumbered Cash, Beginning	269		
Cancelled Prior Year Encumbrances	2,016		
Unencumbered Cash, Ending	<u>\$ 2,286</u>		

10. **COMPLIANCE WITH K.S.A. 72-6417(d) AND K.S.A. 72-6434(d).**
(Continued)

STATUTORY REVENUES AND EXPENDITURES - STATUTORY AND BUDGET
For the Year Ended June 30, 2010

	SUPPLEMENTAL GENERAL FUND		
	Statutory Transactions	Budget	Variance- Favorable (Unfavorable)
Cash Receipts			
Local Sources			
Ad Valorem Tax	\$ 508,077	\$ 500,204	\$ 7,873
Delinquent Tax	16,951	5,437	11,514
Motor Vehicle Tax	74,883	61,467	13,416
State Sources			
Supplemental Aid	1,033,000	1,391,237	-
Federal Sources			
ARRA Stabilization	350,972	-	-
Total Cash Receipts	<u>1,983,883</u>	<u>\$ 1,958,345</u>	<u>\$ 25,538</u>
Expenditures			
Instruction	377,553	\$ 925,000	\$ 547,447
Support Services			
Student Support	-	-	-
General Administration	27,716	50,000	22,284
School Administration	89,533	-	(89,533)
Operations and Maintenance	149,344	270,000	120,656
Operating Transfers to Other Funds			
Food Service	-	100,000	100,000
Professional Development	2,406	15,000	12,594
K-12 At Risk	883,667	125,000	(758,667)
4 Year Old At Risk	32,263	-	(32,263)
Student Materials	36,225	-	(36,225)
Special Education	315,403	400,000	84,597
Vocational Education	170,890	200,000	29,110
Total Expenditures Subject to Budget	<u>2,085,000</u>	<u>\$ 2,085,000</u>	<u>\$ -</u>
Receipts Over (Under) Expenditures	(101,117)		
Unencumbered Cash, Beginning	<u>136,704</u>		
Unencumbered Cash, Ending	<u>\$ 35,587</u>		

SUPPLEMENTAL INFORMATION

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
HIGH SCHOOL ACTIVITY FUND

Schedule of Cash Receipts, Cash Disbursements and Cash Balances
For the Fiscal Year Ended June 30, 2010

	Beginning Cash Balances	Cash Receipts and Transfers	Cash Disbursements and Transfers	Ending Cash Balances
<u>Student Activity Funds</u>				
Student Organizations				
BIAM	\$61.36	-	-	\$61.36
Business Club	168.71	-	-	168.71
Cheerleaders	294.62	1,396.45	695.81	995.26
Class of 2010	111.90	34,759.60	34,871.50	-
Class of 2011	1,781.08	8,444.18	8,214.94	2,010.32
Class of 2012	-	613.00	343.11	269.89
Class of 2013	-	-	-	-
FCCLA	504.74	821.58	1,068.27	258.05
Foreign Language Club	179.70	477.00	450.00	206.70
Miscellaneous	-	339.50	339.50	-
National Honor Society	4.33	-	-	4.33
Science Club	694.41	81.00	87.00	688.41
Student Council	1,059.62	5,083.69	4,883.16	1,260.15
Thespians	18.36	-	-	18.36
Lionbackers	2,349.09	1,635.00	677.88	3,306.21
Annual	1,000.00	370.00	370.00	1,000.00
Band	3,558.12	9,965.00	8,269.69	5,253.43
Vocal Music	3,526.53	7,722.80	7,985.41	3,263.92
Scholars bowl	814.92	1,050.00	878.00	986.92
Interest	830.62	251.49	487.62	594.49
Totals - Cash Basis	16,958.11	73,010.29	69,621.89	20,346.51
<u>District Activity Funds</u>				
Gate Receipts				
Athletics	945.00	24,036.45	24,946.45	35.00
Stage	1,811.76	9,043.92	5,488.41	5,367.27
Fees and User Charges				
Book rental	-	2,813.97	2,813.97	-
Food service	-	37,976.84	37,976.84	-
Industrial Arts	-	2,916.76	2,916.76	-
Locks	-	8.00	8.00	-
Library	(\$13.40)	385.86	372.46	-
Technology	-	13,772.04	13,772.04	-
Total - Cash Basis	2,743.36	90,953.84	88,294.93	5,402.27
 GRAND TOTALS (MEMORANDUM ONLY)	 \$19,701.47	 \$163,964.13	 \$157,916.82	 \$25,748.78

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
MIDDLE SCHOOL SCHOOL ACTIVITY FUND
Schedule of Cash Receipts, Cash Disbursements and Cash Balances
For the Fiscal Year Ended June 30, 2010

	Beginning Cash Balances	Cash Receipts and Transfers	Cash Disbursements and Transfers	Ending Cash Balances
<u>Student Activity Funds</u>				
Student Organizations				
Concessions	\$1,591.03	\$7,909.15	\$8,633.62	\$866.56
Lost & Damaged items	-	163.84	163.84	-
AAA Club	453.49	736.85	1,105.36	84.98
Year Book	-	1,160.00	973.95	186.05
Student Council	1,217.20	3,565.61	3,724.32	1,058.49
Totals - Cash Basis	<u>3,261.72</u>	<u>13,535.45</u>	<u>14,601.09</u>	<u>2,196.08</u>
<u>District Activity Funds</u>				
Gate Receipts				
Athletics	1,627.58	7,758.58	8,133.30	1,252.86
Fees and User Charges				
Food service	-	31,110.67	31,110.67	-
Book rental	-	1,831.10	1,831.10	-
Totals - Cash Basis	<u>1,627.58</u>	<u>40,700.35</u>	<u>41,075.07</u>	<u>1,252.86</u>
 GRAND TOTALS (MEMORANDUM ONLY)	 <u>\$4,889.30</u>	 <u>\$54,235.80</u>	 <u>\$55,676.16</u>	 <u>\$3,448.94</u>

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
LINCOLN ELEMENTARY SCHOOL ACTIVITY FUND
Schedule of Cash Receipts, Cash Disbursements and Cash Balances
For the Fiscal Year Ended June 30, 2010

	Beginning Cash Balances	Cash Receipts and Transfers	Cash Disbursements and Transfers	Ending Cash Balances
<u>Student Activity Funds</u>				
Fees and User Charges				
Misc	\$2,590.06	\$1,827.38	\$1,817.36	\$2,600.08
Totals - Cash Basis	2,590.06	1,827.38	1,817.36	2,600.08
<u>District Activity Funds</u>				
Food Service	-	29,041.84	29,041.84	-
Book Rental	-	1,900.00	1,900.00	-
Totals - Cash Basis	-	30,941.84	30,941.84	-
GRAND TOTALS				
(MEMORANDUM ONLY)	\$2,590.06	\$32,769.22	\$32,759.20	\$2,600.08

UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS
CENTRAL ELEMENTARY SCHOOL ACTIVITY FUND
Schedule of Cash Receipts, Cash Disbursements and Cash Balances
For the Fiscal Year Ended June 30, 2010

	Beginning Cash Balances	Cash Receipts and Transfers	Cash Disbursements and Transfers	Ending Cash Balances
<u>Student Activity Funds</u>				
Fees and User Charges				
Staff	\$377.17	\$1,921.60	\$2,264.56	\$34.21
Lost damaged items	-	45.00	45.00	-
Interest earned	57.17	6.27	46.75	16.69
Library book fair	335.48	6,465.25	6,472.96	327.77
HOSTS book	698.93	145.00	219.23	624.70
Totals - Cash Basis	1,468.75	8,583.12	9,048.50	1,003.37
<u>District Activity Funds</u>				
Food Service	-	28,832.65	28,832.65	-
Book Rental	-	2,020.00	2,020.00	-
Totals - Cash Basis	-	30,852.65	30,852.65	-
GRAND TOTALS				
(MEMORANDUM ONLY)	\$1,468.75	\$39,435.77	\$39,901.15	\$1,003.37

**UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS**

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2010

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	AMOUNT RECEIVED	AMOUNT EXPENDED
<u>U.S. Department of Agriculture</u>			
Passed Through the State of Kansas			
Department of Education:			
School Breakfast Program	10.553	\$69,584	\$69,584
National School Lunch Program	10.555	248,851	248,851
		318,435	318,435
<u>U.S. Department of Education</u>			
Passed Through the State of Kansas			
Department of Education:			
Title I Grants to Local Educational Agencies	84.010	312,508	312,508
Career and Technical Education - Basic Grants to States	84.048	8,689	8,689
Title II Education Technology	84.318	1,965	1,965
Title II - Improving Teacher Quality	84.367	62,636	62,636
Rural Low Income Schools	84.358	27,646	27,646
Title II Education Technology - ARRA	84.386	6,530	6,530
Title I - ARRA	84.389	46,262	69,957
ARRA Stabilization	84.394	667,176	667,176
		1,133,412	1,157,107
 TOTALS		\$1,451,847	\$1,475,542

Diehl Banwart Bolton

Certified Public Accountants PA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL AWARDS PROGRAMS

Board of Education
Baxter Springs Unified School District #508
Baxter Springs, Kansas 66713

Compliance

We have audited the compliance of Baxter Springs Unified School District #508, Baxter Springs, Kansas, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the compliance of the District based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Unified School District #508 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Unified School District #508 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and it is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in cursive script that reads "Diehl Banwart Bolton CPA's PA".

DIEHL, BANWART, BOLTON, CPAs PA

January 15, 2011
Pittsburg, Kansas

Diehl Banwart Bolton

Certified Public Accountants PA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON THE AUDIT OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Education
Baxter Springs Unified School District #508
Baxter Springs, Kansas 66713

We have audited the financial statements of Unified School District #508, Baxter Springs, Kansas, as of the year ended June 30, 2010, and have issued our report thereon dated January 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting (2010-1).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

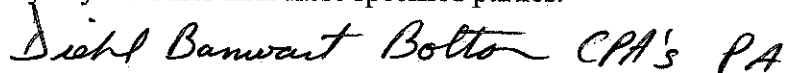
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, we would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to Management of the District in a separate letter dated January 15, 2011.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CPA's PA

DIEHL, BANWART, BOLTON, CPAs PA

January 15, 2011
Pittsburg, Kansas

BAXTER SPRINGS UNIFIED SCHOOL DISTRICT #508
BAXTER SPRINGS, KANSAS

Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:

- Adverse for departures from accounting principles generally accepted in the United States of America due to preparation of financial statements in accordance with the statutory basis of accounting.
- Unqualified opinion on the statutory basis financial statements.

Internal control over financial reporting:

- Significant deficiencies identified? X YES NO
- Significant deficiencies identified that
are not considered to be material weaknesses? YES *NONE* X REPORTED

Noncompliance material to financial statements noted? YES X NO

FEDERAL AWARDS:

Internal control over major programs:

- Significant deficiencies identified? YES X NO
- Significant deficiencies identified that
are not considered to be material weaknesses? YES *NONE* X REPORTED

Type of auditors' report issued on compliance for major programs: UNQUALIFIED

Any audit findings disclosed that are required to be reported
in accordance with Section 510(a) of Circular A-133? YES X NO

IDENTIFICATION OF MAJOR PROGRAMS:

<u>CFDA #</u>	<u>NAME OF PROGRAM</u>
10.553 & 10.555	Child Nutrition Cluster
84.010 & 84.389	Title I
84.394	ARRA Stabilization

Auditee qualified as low-risk auditee? YES X NO

SECTION II - FINANCIAL STATEMENT FINDINGS

Significant Deficiency

2010-1 Drafting Financial Statements

Condition: As auditors, we provide significant assistance with adjusting entries, as well as determining which disclosures are required under generally accepted accounting standards and the statutory basis of accounting.

Criteria: Internal controls should be in place that provide a reasonable assurance that the financial statements are appropriate in form and contain the required disclosures.

Cause: Relying upon the independent auditors is a significant deficiency in internal controls as they can not be considered part of the District's internal control.

Effect: The District relies on independent auditors to determine the financial statements are in the correct form and include the proper disclosures.

Recommendation: None

Response: The District agrees with the finding. The District's response is in the attached Corrective Action Plan.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

BAXTER SPRINGS SCHOOLS USD NO. 508

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DENNIS BURKE, Superintendent
VICKI BRADLEY, Clerk of the Board

JO ANN THOMASSON, Supt. Secretary
JACKIE HALL, Board Secretary

UNIFIED SCHOOL DISTRICT #508 (USD #508)

June 30, 2010 Financial Statements

Corrective Action Plan

Audit Finding 2010-1

USD #508 has always relied upon its auditors to provide significant assistance with adjusting entries and with determining which disclosures were required under generally accepted accounting principles and the statutory basis of accounting. While USD #508 understands that this is a significant deficiency in our internal controls, we believe it is the most cost effective manner for us to produce our financial statements. Our accounting staff concentrate on providing the reports needed for management purposes and preparing the required reports for the Kansas Department of Education. We believe it would be inefficient and cost prohibitive for our staff to attempt to stay current on all the requirements of GAAP and the statutory basis of accounting. We do not plan on making any changes at this time. However, we will monitor this situation and periodically determine if it is cost effective for us to perform these functions.